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No. 08-26

In the Supreme Court of the United States

SAKAR INTERNATIONAL, INC., PETITIONER

v.

UNITED STATES OF AMERICA

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR THE UNITED STATES IN OPPOSITION

GREGORY G. GARRE
Acting Solicitor General
Counsel of Record
GREGORY G. KATSAS
Assistant Attorney General
JEANNE E. DAVIDSON
DOMENIQUE KIRCHNER
Attorneys
Department of Justice
Washington, D.C. 20530-0001
(202) 514-2217

BRIAN MORRIS
Senior Attorney
Customs and Border Protection
Department of Homeland Security
Washington, D.C. 20229

QUESTION PRESENTED

Whether the Court of International Trade possessed jurisdiction to review Customs and Border Protection's assessment against petitioner of a mitigated penalty, pursuant to 19 U.S.C. 1526(f), for importing counterfeit merchandise in violation of 19 U.S.C. 1526(e).

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OPINIONS BELOW

The opinion of the court of appeals (Pet. App. 1-22) is reported at 516 F.3d 1340. The opinion of the Court of International Trade (Pet. App. 24-61) is reported at 466 F. Supp. 2d 1333.

JURISDICTION

The judgment of the court of appeals was entered on February 19, 2008. A petition for rehearing was denied on April 11, 2008 (Pet. App. 64-65). The petition for a writ of certiorari was filed on July 2, 2008. The jurisdiction of this Court is invoked under 28 U.S.C. 1254(1).

STATEMENT

1. Under 28 U.S.C. 1581(i), the Court of International Trade is vested with "exclusive jurisdiction of any civil action commenced against the United States, its agen-

cies, or its officers, that arises out of any law of the United States providing for

> (1) revenue from imports or tonnage;
>
> * * * * *
>
> (3) embargoes or other quantitative restrictions on the importation of merchandise for reasons other than the protection of the public health or safety; or
>
> (4) administration and enforcement with respect to the matters referred to in paragraphs (1)-(3) of this subsection.

28 U.S.C. 1581(i)(1), (3) and (4). Thus, the court is granted exclusive jurisdiction of cases against the United States that arise out of any law providing for "administration and enforcement" of matters referred to in paragraph (3) of Section 1581(i), which include "embargoes," as well as matters referred to in paragraph (1), which include "revenue from imports." *Ibid.*

Section 526 of the Tariff Act of 1930, 19 U.S.C. 1526, outlaws the importation of foreign merchandise bearing an unlicensed American trademark. Subsection (a) of that statute makes it "unlawful to import into the United States any merchandise of foreign manufacture if such merchandise * * * bears a [registered] trademark" of an American citizen or corporation "unless written consent of the owner of such trademark is produced at the time of making entry." 19 U.S.C. 1526(a). Subsection (e) provides, in turn, that "[a]ny such merchandise bearing a counterfeit mark" in violation of the Lanham Act, 15 U.S.C. 1124, "shall be seized and, in the absence of the written consent of the trademark owner, forfeited for violations of the customs laws." 19 U.S.C. 1526(e).

In addition to the seizure and forfeiture of the merchandise, 19 U.S.C. 1526(f) provides for the assessment of a civil fine or penalty against "[a]ny person who directs, assists financially or otherwise, or aids and abets the importation of merchandise for sale or public distribution that is seized under subsection (e)." 19 U.S.C. 1526(f)(1). With respect to the particular amount of such fine or penalty, Section 1526(f) mandates that:

> (2) For the first such seizure, the fine shall be not more than the value that the merchandise would have had if it were genuine, according to the manufacturer's suggested retail price, determined under regulations promulgated by the Secretary [of the Treasury].
>
> (3) For the second seizure and thereafter, the fine shall be not more than twice the value that the merchandise would have had if it were genuine, as determined under regulations promulgated by the Secretary [of the Treasury].

19 U.S.C. 1526(f)(2) and (3).

United States Customs and Border Protection (CBP), a component of the Department of Homeland Security,[1] is vested with "discretion" over the imposition of such civil fines or penalties. 19 U.S.C. 1526(f)(4). CBP has promulgated a series of regulations setting forth the various procedures applicable to the seizure

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[1] On March 1, 2003, the Customs Service was renamed United States Customs and Border Protection and transferred into the Department of Homeland Security. 6 U.S.C. 542 note. All authorities previously delegated by the Department of Treasury to the Customs Service were redelegated to the Department of Homeland Security, and subsequently redelegated to United States Customs and Border Protection. 68 Fed. Reg. 28,322 (2003).

and forfeiture of merchandise imported in contravention of 19 U.S.C. 1526, and the assessment of civil fines and penalties in connection with such importations. 19 C.F.R. Pt. 133. The regulations also establish a detailed set of procedures that govern an importer's filing of a petition and a supplemental petition seeking administrative relief from any fine, penalty, or forfeiture imposed pursuant to 19 U.S.C. 1526, as well as CBP's exercise of its authority to mitigate any such fine, penalty, or forfeiture. 19 C.F.R. 133.21(e); 19 C.F.R. Pt. 171.

2. On October 7, 2002, petitioner entered 500 travel chargers for personal digital assistants (PDAs) and 2311 mini-keyboards for PDAs, all of which were products of the People's Republic of China. Pet. App. 3. On December 18, 2002, CBP seized that merchandise for alleged violations of 19 U.S.C. 1526(e). Pet. App. 3-4. In particular, CBP concluded that importation of the merchandise violated 19 U.S.C. 1526(e) because the travel chargers bore a counterfeit mark of Underwriters Laboratories (UL) and the keyboards displayed, on a function key, a counterfeit "Flying Window" trademark of the Microsoft Corporation. Pet. App. 4.

CBP notified petitioner of the seizure and informed it that the goods would be forfeited and disposed of unless the trademark owners consented in writing to the importation of the goods. Pet. App. 4. Neither UL nor Microsoft provided such consent. *Ibid.* As a result, on August 28, 2003, CBP destroyed the imported merchandise. *Ibid.*

CBP issued petitioner a notice of penalty under 19 U.S.C. 1526(f). Pet. App. 4-5. CBP based its calculation of the fine upon a finding that petitioner had incurred penalties for two prior violations of Section 1526. *Id.* at 5 n.3. CBP originally determined the penalty amount to

be $381,500 and later mitigated the penalty to half that amount, or $190,750. *Id.* at 4-5. CBP subsequently lowered its determination of the manufacturer's suggested retail price (MSRP) from $190,750 to $67,775, assessed a penalty at twice that amount, and then mitigated the penalty by 50% to arrive at a penalty amount of $67,775. *id.* at 4-5, 27-28.

3. Petitioner filed suit in the Court of International Trade. Petitioner alleged that CBP had acted contrary to law in initially concluding that the goods were counterfeit and in subsequently calculating the MSRP of the goods after seizing them. Pet. App. 5. CBP moved to dismiss the complaint for lack of subject matter jurisdiction, or alternatively, for failure to state a claim upon which relief could be granted. *Id.* at 6.

The Court of International Trade held that it possessed jurisdiction over petitioner's claim under 28 U.S.C. 1581(i)(3) and (4). Pet. App. 38-51. Specifically, the court held that CBP's seizure of petitioner's goods amounted to an "embargo[]" within the meaning of Section 1581(i)(3), and that CBP's assessment of a fine related to the "administration and enforcement" of an embargo within the meaning of Section 1581(i)(4). *Id.* at 50-51. The court then granted the government's motion to dismiss for failure to state a claim upon which relief could be granted. *Id.* at 51-59. The court held that CBP's penalty determination did not constitute "final agency action" within the meaning of the Administrative Procedure Act, 5 U.S.C. 701 *et seq.*, because CBP and the Department of Justice retained discretion over the decision whether to sue petitioner in district court to collect the fine. Pet. App. 54-55.

4. Petitioner appealed to the Court of Appeals for the Federal Circuit, which vacated the trial court's deci-

sion on the ground that the Court of International Trade lacked jurisdiction to entertain petitioner's suit. Pet. App. 1-22. In ruling that the trial court had erred in its jurisdictional determination, the court of appeals held that 19 U.S.C. 1526(e) does not create an "embargo[]"—a governmentally imposed quantitative limit on importation—within the meaning of 28 U.S.C. 1581(i)(3). Rather, under Section 1526(e), the trademark owner, not the government, retains ultimate control over whether or not counterfeit merchandise is actually imported. Pet. App. 15-18.

The court of appeals also held that the trial court had correctly rejected petitioner's alternative theory that jurisdiction was proper in the Court of International Trade under 28 U.S.C. 1581(i)(1) and (4) because CBP's notice of penalty constituted enforcement of a law relating to "revenue from imports." Pet. App. 18-20. The court of appeals held that Section 1526(f) is not in any ordinary sense a law providing for "revenue from imports" within the meaning of Section 1581(i)(1), and that it is not related to "administration and enforcement" of a law providing for revenue from imports within the meaning of Section 1581(i)(4). *Id.* at 19-20. The court also rejected the argument that petitioner was entitled to "non-statutory, judicially granted" review. *Id.* at 20-21.

ARGUMENT

Petitioner contends that the court of appeals' jurisdictional holding is erroneous because (1) enforcement of the trademark laws through seizure of counterfeit goods under Section 1526(e) constitutes an "embargo" within the meaning of 28 U.S.C. 1581(i)(3) (Pet. 11-21), and (2) CBP's notice of penalty under Section 1526(f)

constituted action related to "revenue from imports" within the meaning of 28 U.S.C. 1581(i)(1) (Pet. 21-28). The court of appeals' jurisdictional ruling is correct and does not conflict with any decision by this Court or any other court of appeals. Further review is therefore unwarranted.

1. The court of appeals properly applied this Court's decision *K Mart Corp.* v. *Cartier, Inc.*, 485 U.S. 176 (1988), in holding that CBP's enforcement of the rights of trademark holders pursuant to 19 U.S.C. 1526(e) does not constitute an "embargo[]" within the meaning of 28 U.S.C. 1581(i)(3). In *K Mart*, the Court held that Section 1581(i)(3) did not vest the Court of International Trade with jurisdiction over a challenge to a regulation permitting entry of certain "gray market" goods, the importation of which was allegedly prohibited by 19 U.S.C. 1526(a). The Court adhered to the "ordinary" meaning of the term "embargo," *i.e.*, "a governmentally imposed quantitative restriction—of zero—on the importation of merchandise," *K Mart*, 485 U.S. at 185, examples of which included prohibitions against importation of items in order to protect the public health, safety, or morality, or to promote the government's interests in foreign affairs, law enforcement, or protection of the environment. See *id.* at 184. The Court made clear, however, that "not every governmental importation prohibition is an embargo." *Id.* at 187. The Court held, in particular, that enforcement of the importation prohibition under Section 1526(a) was not an "embargo" because, "rather than reflecting a *governmental* restriction on the quantity of a particular product that will enter, it merely provides a mechanism by which a private party might, at its own option, enlist the Government's

aid in restricting the quantity of imports in order to enforce a private right." *Id.* at 185.

The Federal Circuit correctly found that the holding in *K Mart* applies to Section 1526(e) as well as Section 1526(a). Whereas Section 1526(a) establishes a substantive prohibition against importing goods in violation of trademark rights, Section 1526(e) establishes a means for enforcing such a prohibition against importing counterfeit goods. There is no basis for petitioner's contention that while the substantive prohibition against importation is not an embargo, see *K Mart*, 485 U.S. at 185, the enforcement of such a prohibition through seizure of the merchandise does constitute an embargo.

Petitioner seeks (Pet. 16-21) to distinguish *K Mart* by arguing that the importation prohibitions arising under Section 1526(e) operate independently from the actions of any trademark owner. But, as the court of appeals explained (Pet. App. 14-18), petitioner is incorrect because, under Section 1526(e), "the trademark owner, not the government, retains ultimate control over whether or not the 'counterfeit' merchandise is imported." *Id.* at 15-16. Under the plain language of the statute and its implementing regulations, merchandise bearing a counterfeit mark is not forfeited if the trademark owner consents in writing to its importation. 19 U.S.C. 1526(e) ("merchandise * * * shall be seized and, in the absence of the written consent of the trademark owner, forfeited"); 19 C.F.R. 133.21(e) (forfeiture may not occur if trademark owner "provides written consent to importation"). And because seized goods may subsequently be released for importation upon consent of the trademark owner, petitioner is also wrong in suggesting that the government's initial act of seizing mer-

chandise amounts to a quantitative restriction on importation. *Ibid.*[2]

Thus, as with Section 1526(a), which this Court held in *K Mart* did not constitute an "embargo," Section 1526(e) simply provides a mechanism by which a private party might choose to enlist the government's aid in order to restrict a quantity of imports in furtherance of that party's private rights. Pet. App. 16-18. The court of appeals' decision correctly applies this Court's precedent and does not conflict with the decision of any other court of appeals.[3] Further review is therefore unwarranted.

2. The court of appeals also properly rejected (Pet. App. 20) petitioner's argument (Pet. 21-28) that the Court of International Trade has jurisdiction under 28 U.S.C. 1581(i)(4) to review CBP's notice of penalty pursuant to Section 1526(f) on the theory that the notice constitutes enforcement of a law providing for "revenue

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[2] Moreover, the trademark owner rather than the government even exercises control over whether there is an initial seizure. As the court of appeals noted (Pet. App. 18 n.7), the use of the phrase "such merchandise" in Section 1526(e) implies a reference to the first use of the term "merchandise" in Section 1526(a), which by its plain language prohibits the importation of trademark-bearing merchandise only in the absence of written consent of the trademark owner.

[3] The only contrary authority appears to be an unpublished district court opinion that held, following the now-vacated Court of International Trade's decision in this case, that suits relating to seizure of goods under Section 1526(e) come within the Court of International Trade's exclusive jurisdiction pursuant to Section 1581(i)(3) and (4). See *Pacific Channels Groups* v. *DHS*, No. 07-2106, 2007 WL 4232978, *4-*5 (D.N.J. Nov. 29, 2007). Notably, the United States did not urge that position in *Pacific Channels*, but instead argued, as it did in the trial court here, that there was no final agency action subject to judicial review. See 07-2106 Mem. in Support of Mot. to Dismiss 8-10.

from imports," 28 U.S.C. 1581(i)(1). As both the Court of International Trade and the Federal Circuit correctly observed, "section 1526(f) is not 'in any ordinary sense' a law providing for revenue from imports," Pet. App. 20 (quoting *id.* at 38), but instead authorizes the imposition of civil penalties against those who attempt to infringe the private rights of trademark holders. *Ibid.* That conclusion is further supported by the provision's legislative history. *Ibid.* (citing S. Rep. No. 177, 104th Cong., 1st Sess. 2 (1995); H.R. Rep. No. 556, 104th Cong., 2d Sess. 1-2 (1996)). Although petitioner cites a number of cases (Pet. 22-23) that, according to petitioner, reflect a broad construction of the Court of International Trade's subject matter jurisdiction under 28 U.S.C. 1581(i)(1) and (4), none of those cases supports a finding of jurisdiction under Section 1581(i)(4) with respect to a notice of penalty under Section 1526(f) for importing counterfeit goods in violation of a trademark owner's rights.

Petitioner places primary reliance (Pet. 22, 23-28) on the Federal Circuit's decision in *Conoco, Inc.* v. *United States Foreign-Trade Zones Board*, 18 F.3d 1581 (1994), but that case is easily distinguishable. In *Conoco*, refinery operators sought review of orders of the Foreign Trade Zones Board requiring the operators to pay, as a condition of the Board granting the operators special foreign subzone status, duties on foreign crude oil used in the refineries, calculated by reference to the value of the crude oil rather than the refined product. *Id.* at 1583. In upholding the Court of International Trade's jurisdiction over the dispute as one arising out of laws providing for "revenue from imports or tonnage" within the meaning of Section 1581(i)(1), the Federal Circuit reasoned that "[t]he foreign-trade zones arise under laws designed to deal with revenue from imports, and

they provide a special mechanism for determining revenue from materials imported into these zones." *Id.* at 1588. Indeed, the court stated that there was "little ground for dispute" that a suit about application of the foreign-trade zone laws concerned the administration of laws related to revenue from imports. *Id.* at 1589. The Federal Circuit in *Conoco* distinguished this Court's decision in *K Mart*, noting that *K Mart* related to the enforcement of the rights of trademark owners. *Ibid.* Thus, there is no conflict between the court of appeals' decision in this case and its holding in *Conoco*.

The other cases relied upon by petitioner (Pet. 23) are similarly inapposite. In each of those cases, the question presented was whether some administrative decision affecting entities that participate in the importation process was sufficiently "intertwined with and directly related to the *administration and enforcement* of the laws providing for revenue from imports" to come within the grant of jurisdiction in Section 1581(i)(1) and (4). *Di Jub Leasing Corp.* v. *United States*, 505 F. Supp. 1113, 1117 (Ct. Int'l Trade 1980). The court held in those cases that the regulations at issue were related to securing revenue from imports. See *id.* at 1116 ("the primary objective of licensing and bonding cartmen and lightermen is to secure the revenue from imports on which customs duties have not yet been paid"); see also *United States* v. *Bar Bea Truck Leasing Co.*, 713 F.2d 1563, 1566 (Fed. Cir. 1983) (agreeing with *Di Jub Leasing*); *National Customs Brokers & Forwarders Ass'n* v. *United States*, 731 F. Supp. 1076, 1078 (Ct. Int'l Trade 1990) (action regarding ability of brokers to make entry of shipments was within the scope of Section 1581(i)(1) and (4) because "[t]he entry process is the key administrative act leading to the * * * collection of revenues

from imports"); *Air Cargo Servs., Inc.* v. *United States*, 678 F. Supp. 296 (Ct. Int'l Trade 1988) (licensing of container station); *National Bonded Warehouse, Ass'n* v. *United States*, 706 F. Supp. 904 (Ct. Int'l Trade 1989) (fees charged bonded warehouses). None of those decisions is relevant to this case because, as the court of appeals held, the assessment of a penalty pursuant to Section 1526(f) does not lead to the collection of revenue from imports. Pet. App. 20.

3. There is also no merit to petitioner's argument (Pet. 28-30) that the Federal Circuit's ruling conflicts with the presumption of judicial review of agency action. The court of appeals did not hold that there could be no judicial review of CBP's decision, but only that Section 1581 did not authorize the Court of International Trade to hear petitioner's challenge. Pet. App. 20-21.

Petitioner seeks pre-enforcement judicial review in the Court of International Trade in circumstances where Congress has dictated that the ultimate enforcement action, if one is ever initiated, will occur in the district courts. By statute, the imposition of a penalty under Section 1526(f) lies in the discretion of CBP, see 19 U.S.C. 1526(f)(4), and, by regulation, CBP has provided that no judicial action to recover a penalty will be initiated unless, in an exercise of discretion by the Customs Commissioner, a referral is made to the Department of Justice. 19 C.F.R. 171.22. Because Congress did not grant to the Court of International Trade jurisdiction over actions to collect penalties under Section 1526(f), see 28 U.S.C. 1582, any action by the Department of Justice to collect those penalties must be initiated in the district court. See 28 U.S.C. 1355 (granting the district courts exclusive jurisdiction over actions to collect fines or penalties not granted to the Court of International

Trade under Section 1582); Pet. App. 55. In those circumstances, it would be especially inappropriate to create a non-statutory avenue for pre-enforcement judicial review in a different forum. See *id.* at 20-21.

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted.

GREGORY G. GARRE
Acting Solicitor General
GREGORY G. KATSAS
Assistant Attorney General
JEANNE E. DAVIDSON
DOMENIQUE KIRCHNER
Attorneys

BRIAN MORRIS
Senior Attorney
Customs and Border Protection
Department of Homeland Security

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